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National Energy Board

# Reasons for Decision

**Androscoggin Energy LLC**

**PanCanadian Petroleum Limited**

**ProGas Limited**

**Vermont Gas Systems, Inc.**

**Wascana Energy Inc. and Rock-Tenn Company, Mill Division, Inc.**

## GHW-2-97

**January 1998**

**Gas Exports**

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# National Energy Board

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## Reasons for Decision

In the Matter of

**Androscoggin Energy LLC**

**PanCanadian Petroleum Limited**

**ProGas Limited**

**Vermont Gas Systems, Inc.**

**Wascana Energy Inc. and Rock-Tenn Company, Mill Division, Inc.**

Applications Pursuant to Part VI of the *National Energy Board Act* for Licences to Export Natural Gas

## GHW-2-97

**January 1998**

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# Abbreviations

| | |
|---|---|
| Act | *National Energy Board Act* |
| AltaGas | AltaGas Services Inc. |
| Androscoggin | Androscoggin Energy LLC |
| ANG | Alberta Natural Gas Company Ltd |
| Bcf | billion cubic feet |
| Beau Canada | Beau Canada Exploration Ltd. |
| DCQ | Daily Contract Quantity |
| DOE/FE | (United States of America) Department of Energy, Office of Fossil Energy |
| EIA | Export Impact Assessment |
| EUB | Alberta Energy and Utilities Board |
| FERC | (United States of America) Federal Energy Regulatory Commission |
| Foothills | Foothills Pipe Lines Ltd. |
| FS | Firm Service |
| GHR-1-87 | *Review of Natural Gas Surplus Determination Procedures* |
| GHW-1-91 | *Proposed Changes to the Application of the Market-Based Procedure* |
| GHW-4-89 | *Review of Certain Aspects of the Market-Based Procedure* |
| GJ | gigajoule(s) |
| GLGT | Great Lakes Gas Transmission Limited Partnership |
| GMLP | Gaz Métropolitain and Company Limited Partnership |
| MAQ | Minimum Annual Quantity |
| MBP | Market-Based Procedure |
| MDQ | Maximum Daily Quantity |
| MMBtu | million British thermal units |
| MMcf | million cubic feet |

| | |
|---|---|
| MMcf/d | million cubic feet per day |
| MW | megawatt(s) |
| NEB | National Energy Board |
| NGMA | Natural Gas Market Assessment |
| NG&E | National Gas & Electric L.P. |
| Northern Border | Northern Border Pipeline Company |
| NOVA | NOVA Gas Transmission Ltd. |
| PCPC | PanCanadian Petroleum Company |
| PCPL | PanCanadian Petroleum Limited |
| PGT | Pacific Gas Transmission Company |
| PNGTS | Portland Natural Gas Transmission System |
| Producers Marketing | Producers Marketing Ltd. |
| ProGas | ProGas Limited |
| ProGas U.S.A. | ProGas U.S.A. Inc. |
| Renaissance | Renaissance Energy Ltd. |
| Rio Alto | Rio Alto Exploration Ltd. |
| Rock-Tenn | Rock-Tenn Company, Mill Division, Inc. |
| Tcf | trillion cubic feet |
| Technical Report | *Canadian Energy Supply and Demand 1993-2010 - Technical Report* |
| TransCanada | TransCanada PipeLines Limited |
| TransGas | TransGas Limited |
| Vermont Gas | Vermont Gas Systems, Inc. |
| Wascana | Wascana Energy Inc. |

## Recital and Appearances

**IN THE MATTER OF** the *National Energy Board Act* and the Regulations made thereunder; and

**IN THE MATTER OF** applications under Part VI of the *National Energy Board Act* for new licences to export natural gas by:

Androscoggin Energy LLC; PanCanadian Petroleum Limited; ProGas Limited; Vermont Gas Systems, Inc.; and Wascana Energy Inc. and Rock-Tenn Company, Mill Division, Inc.

**AND IN THE MATTER OF** Hearing Order GHW-2-97;

**HEARD** in Calgary, Alberta, by written proceeding.

**BEFORE:**

| | |
|---|---|
| K.W. Vollman | Presiding Member |
| A. Côté-Verhaaf | Member |
| R.J. Harrison | Member |

**WRITTEN APPEARANCES:**

| | |
|---|---|
| D.G. Davies<br>Bryan E. Scheuler | Androscoggin Energy LLC |
| Nick Gretener<br>Patricia A. McCunn-Miller | PanCanadian Petroleum Limited |
| Michelle Voinorosky | ProGas Limited |
| D.G. Davies<br>Jonathan V. Mai | Vermont Gas Systems, Inc. |
| Richard A. Neufeld<br>Diane Cameron | Wascana Energy Inc. & Rock-Tenn Company, Mill Division, Inc. |
| Patricia French | Westcoast Gas Services Inc. |
| C. J. C. Page<br>Stephen N. Eliot | Alberta Department of Energy |
| N. J. Schultz | Canadian Association of Petroleum Producers |
| Paul A. Lovie | Duke Energy Marketing L.P. |
| Shelley Milutinovic | Foothills Pipe Lines Ltd. |
| François G. Hébert | Gaz Métropolitain and Company Limited Partnership |

| | |
|---|---|
| Patricia M. Cradock | Renaissance Energy Ltd. |
| Gordon W. Toews | TransCanada Gas Services |
| Paul R. Jeffrey | TransCanada PipeLines Limited |
| C. McKinnon | National Energy Board |

## Chapter 1

# Part VI - Gas Export Applications

## 1.1 The Applications

During the GHW-2-97 proceeding, the National Energy Board ("the Board" or "NEB") examined six applications for eight gas export licences from the following parties:

1. Androscoggin Energy LLC ("Androscoggin");
2. PanCanadian Petroleum Limited ("PCPL (Monchy Export)");
3. PanCanadian Petroleum Limited ("PCPL (Kingsgate Export)");
4. ProGas Limited ("ProGas"), three licences;
5. Vermont Gas Systems, Inc. ("Vermont Gas"); and
6. Wascana Energy Inc. and Rock-Tenn Company, Mill Division, Inc. ("Joint Applicants")

Table 1-1 provides a summary of each export licence application considered during the GHW-2-97 hearing.

**Table 1-1**
**Summary of Applied-for Licences**

| Application | | Buyer (Type of market) | Term | Export Point | Maximum Quantities Applied For Daily $10^3m^3$ (MMcf) | Annual $10^6m^3$ (Bcf) | Term $10^6m^3$ (Bcf) |
|---|---|---|---|---|---|---|---|
| 1. | Androscoggin | Cogen facility in Jay, Maine | 10 years from first deliveries | East Hereford, Québec | 1 242.2 (43.9) | 453.4 (16.0) | 4 534.0 (160.1) |
| 2. | PCPL (Kingsgate) | National Gas & Electric L.P. (Western U.S. sales portfolio) | 1 November 1998 to 31 October 2008 | Kingsgate, B.C. | 2 727.4 (96.2) | 996.2 (35.2) | 9 962.0 (351.7) |
| 3. | PCPL (Monchy) | National Gas & Electric L.P. (U.S. Midwest sales portfolio) | 1 November 1998 to 31 October 2008 | Monchy, Sask. | 4 277.5 (151.0) | 1 562.4 (55.2) | 15 624.0 (551.5) |
| 4. | ProGas (Emerson) | ProGas U.S.A. (U.S. Midwest sales portfolio) | 1 November 1998 to 31 October 2008 | Emerson, Manitoba | 750.4 (26.5) | 274.1 (9.7) | 2 740.8 (96.8) |
| 5. | ProGas (Monchy) | ProGas U.S.A. (U.S. Midwest sales portfolio) | 1 November 1998 to 31 October 2008 | Monchy, Sask. | 849.6 (30.0) | 310.3 (11.0) | 3 103.2 (109.5) |
| 6. | ProGas (Kingsgate)(1) | ProGas U.S.A. (Western U.S. sales portfolio) | 1 July 1998 to 1 March 2007 | Kingsgate, B.C. | 222.3 (7.9) | 81.1 (2.9) | 703.4 (24.8) |
| 7. | Vermont Gas | Vermont Gas' system supply | 1 November 1998 to 1 November 2008 | Philipsburg, Québec | 226.6 (8.0) | 82.7 (2.9) | 827.0 (29.2) |
| 8. | Joint Applicants(1) | Rock-Tenn Company, Mill Division, Inc. | 1 November 1998 to 31 October 2008 | Philipsburg, Québec | 61.2 (2.2) | 22.3 (0.8) | 223.4 (7.9) |

(1) As Amended

Chapter 2

# Market-Based Procedure

The Board is directed by section 118 of the *National Energy Board Act* ("Act"), in its consideration of applications to obtain a licence to export oil or gas, to have regard to all considerations that appear to it to be relevant. The Board is required to satisfy itself, in accordance with paragraph 118(a), that the quantity of gas to be exported does not exceed the surplus remaining after due allowance has been made for the reasonably foreseeable requirements for use in Canada, having regard to the trends in the discovery of gas in Canada.

In July 1987, pursuant to a *Review of Natural Gas Surplus Determination Procedures* ("GHR-1-87"), the Board implemented a procedure, known as the Market-Based Procedure ("MBP"), by which the Board assesses the merits of an application to obtain a gas export licence. The MBP is founded on the premise that the marketplace will generally operate in such a way that Canadian requirements for natural gas will be met at fair market prices. The MBP was modified following subsequent public hearings GHW-4-89 and GHW-1-91. The modifications do not affect the premise on which the MBP is founded.

The MBP provides that the Board will act in two ways to ensure that natural gas to be licensed for export is surplus to reasonably foreseeable Canadian requirements and that the specific export being proposed is in the public interest: it will hold public hearings to consider applications for licences to export natural gas; and it will monitor Canadian energy usage and markets on an ongoing basis.

## 2.1 Public Hearings

During public hearings, the Board evaluates whether the market is functioning well. The three components considered by the Board are:

1) Complaints Procedure: The Board must consider any complaints from Canadian gas buyers who object to the proposed export on the grounds that they have not had an opportunity to buy gas on terms and conditions, including price, similar to those of the proposed export. The Complaints Procedure seeks to ensure that Canadian buyers who have been active in the market have access to gas supply on terms and conditions similar to those available to export customers.

2) Export Impact Assessment ("EIA"): The EIA assists the Board in its determination of whether a proposed export is likely to cause Canadians difficulty in meeting their energy requirements at fair market prices. The EIA sets out the impact of the proposed export on Canadian energy and natural gas markets. The Board's most recent EIA, which was prepared in consultation with the energy industry and other interested parties, was included in Chapter 6 of the NEB report entitled *Canadian Energy Supply and Demand 1993-2010 - Technical Report* ("Technical Report"), released in December 1994.

All GHW-2-97 applicants chose to rely on the EIA prepared by the Board in its 1994 Technical Report.

3) Public Interest Determination: In order to determine whether the proposed export is in the public interest, the Board will assess any other factors that it deems relevant. Such factors include the following other public interest considerations, which the Board will normally examine in conjunction with an export application:

- the likelihood that the licensed volumes will be taken;
- the durability of the export sales contract;
- whether the export sales contract was negotiated at arm's length;
- producer support for the gas export application;
- provisions in the export sales contracts for the payment of the associated transportation charges on Canadian pipelines over the term of the export sales contract; and
- the appropriate length for an export licence having regard to the adequacy of gas supply and associated export sales and transportation contracts.

The above-noted other public interest considerations are examples of the factors that the Board normally has regard to when assessing the merits of gas export licence applications. However, in specific proceedings, the Board may also consider any additional factors that appear to it to be relevant in the circumstances.

In the GHW-2-97 proceeding, as part of its examination of other public interest considerations, the Board included the potential environmental effects of the proposed exports. For this purpose, the Board decided to rely on the necessary connection test described in the NEB Review of its Decision in GH-5-93 and the Reasons for Decision in GH-3-94. This test is used to establish the scope of the Board's assessment of the potential environmental effects of the applications to export gas. The Board will consider the environmental effects of new upstream facilities and activities only when those facilities or activities are necessarily connected to the requirements of the export licence. For a necessary connection to exist, the export licence and new upstream facilities or activities must be integrated to the extent that they can be seen to form a single course of action.

## 2.2 Ongoing Monitoring

There are two main components to the Board's ongoing monitoring responsibility under the MBP:

1) assessments of Canadian energy supply and demand; and

2) natural gas market assessments.

The Act requires the Board to monitor the outlook for Canadian supply of all major energy commodities, including electricity, oil and natural gas and their by-products, and the demand for

energy in Canada and abroad. Accordingly, the Board prepares and maintains forecasts of energy supply and demand and, periodically, has issued reports after obtaining the views of provincial governments, industry and other parties.

Among matters analyzed are trends in the discovery of oil and natural gas in Canada, the evolving shares of the energy market served by various energy forms and the implications for the natural gas market of alternative supply and demand assumptions. These matters and others are reviewed in the Board's latest report, entitled *Canadian Energy Supply and Demand 1993- 2010 - Trends and Issues*, released in July 1994, and the companion Technical Report, released in December 1994.

As the second part of its ongoing monitoring role, the Board will analyze shorter-term developments in natural gas supply, demand and prices, and publish reports on its findings. Generally, the Natural Gas Market Assessment ("NGMA") studies and related statistical reports provide coverage of recent developments and near-term prospects for natural gas markets, competitive market activity, pipeline utilization for Canadian and export purposes, and the quantity of gas supply.

## 2.3 The Determination of Surplus by the MBP

In summary, the Board determines that the gas to be exported is surplus to Canadian needs if:

1) there are no complaints registered under the Complaints Procedure;

2) the EIA indicates that Canadians will have no difficulty in meeting their energy requirements at fair market prices;

3) in the view of the Board, there are no other major public interest concerns; and

4) ongoing monitoring suggests that markets are functioning normally and identifies no other issues relating to the evolution of supply or demand that cast doubt on the future ability of Canadians to meet their energy requirements.

***Views of the Board***

In the GHW-2-97 proceeding, there were no complaints received regarding any applications.

In respect of the EIA component of the MBP, the overall forecast of supply and demand for the period extending through 2010, as contained in the Board's 1994 Technical Report, indicates that Canadians would not likely experience difficulty in meeting their energy requirements at fair market prices with respect to the applications included in the GHW-2-97 proceeding. The Board is of the view that approval of the applied-for licences, which total 37.7 $10^9 m^3$ (1.3 Tcf) of gas proposed for export, would not change this conclusion.

With regard to the potential environmental effects of the proposed exports, the Board has determined that, in the current proceeding, there is no necessary connection between the applied-for export licences and any upstream facilities or activities.

With respect to the other public interest considerations, the evidence of each applicant is presented in the individual chapters of these Reasons. The findings of the Board with respect to these considerations are contained in the "Views of the Board" section at the end of each respective chapter.

The public hearing component of the MBP, including the Complaints Procedure, the EIA and other public interest considerations, combined with the Board's ongoing monitoring of activities of the industry through its NGMAs and supply and demand forecasts, all contribute to the Board's overall understanding of whether or not natural gas can be viewed as surplus to the foreseeable requirements of Canadians.

Taking all such factors into consideration in the current proceeding, the Board is satisfied that the quantity of gas proposed to be exported does not exceed the surplus remaining after due allowance has been made for the reasonably foreseeable requirements for use in Canada, having regard to future trends in the discovery of gas in Canada.

## Chapter 3

# Sunset Clauses

### 3.1 Sunset Clauses

It has generally been Board practice in issuing a gas export licence to set an initial period during which, if the export of gas commences, the licence becomes effective for the full term approved by the Board. This condition in the licence is referred to as a sunset clause because the licence would expire if the export did not commence within the specified timeframe. Inclusion of the sunset clause is intended to limit outstanding licences to those for which the gas actually starts to flow within a reasonable period after the decision. In the current proceeding, the Board questioned all applicants concerning the acceptability of a sunset clause in the applied-for licences.

As a matter of general practice, the Board has set the timeframe by which exports must commence at two years from the expected commencement of the licence term.

Chapter 4

# Androscoggin Energy LLC

## 4.1 Application Summary

By application dated 28 August 1997, Androscoggin Energy LLC ("Androscoggin") sought, pursuant to Part VI of the Act, a licence for the export of natural gas with the following terms and conditions:

| | | | |
|---|---|---|---|
| Term | - | commencing on the later of 1 November 1998 or the date of first deliveries and extending for ten years | |
| Point of Export | - | East Hereford, Québec | |
| Maximum Daily Quantity | - | 1 242.2 $10^3m^3$ | (43.9 MMcf) |
| Maximum Annual Quantity | - | 453.4 $10^6m^3$ | (16.0 Bcf) |
| Maximum Term Quantity | - | 4 534.0 $10^6m^3$ | (160.1 Bcf) |
| Tolerances | - | ten percent per day and two percent per year | |

The gas proposed to be exported by Androscoggin would be produced from the corporate supply pools of AltaGas Services Inc. ("AltaGas"), Beau Canada Exploration Ltd. ("Beau Canada"), Producers Marketing Ltd. ("Producers Marketing"), Renaissance Energy Ltd. ("Renaissance") and Rio Alto Exploration Ltd. ("Rio Alto"). The gas would be transported on the NOVA system to the Alberta border near Empress. TransCanada would then deliver the gas to the export point at East Hereford, Québec. From the international border, the gas would be transported on the Portland Natural Gas Transmission System ("PNGTS") to the Androscoggin Energy Center cogeneration facility in Jay, Maine.

## 4.2 Gas Supply

### 4.2.1 Supply Sources

Androscoggin stated that the supply intended for export will be provided by five suppliers from their corporate supply pools in Alberta. In the case of Producers Marketing, it may utilize gas supplies from Saskatchewan or British Columbia provided that it procures the necessary transportation.

### 4.2.2 Reserves

Androscoggin provided the Board with each supplier's estimate of reserves prepared either by the EUB or by a consultant. The estimates of remaining reserves were as of year-end 1996, excepting AltaGas whose estimates were as of 8 August 1997. These estimates totalled 42 327.4 $10^6m^3$ (1,494.2 Bcf). The submitted reserves exceeded the total requirements against those reserves over the term of the proposed export, including the commitment to Androscoggin.

### 4.2.3 Productive Capacity

Androscoggin submitted a comparison of productive capacity and annual requirements for each supplier. These comparisons showed that the suppliers would have adequate productive capacity to meet their commitments to Androscoggin over the majority of the term of the applied-for licence.

## 4.3 Transportation

The gas to be supplied to Androscoggin by Renaissance would be delivered to Empress, Alberta pursuant to a FS agreement between NOVA and Renaissance covering its share of the contracted volume, plus fuel gas. Androscoggin has received a letter of confirmation from NOVA for the requisite FS capacity covering the balance of the gas to be transported. From the Alberta border, Androscoggin would transport the gas to East Hereford, Québec pursuant to two precedent agreements with TransCanada for FS capacity of 895.2 $10^3m^3/d$ (31.6 MMcf/d) and 320.1 $10^3m^3/d$ (11.3 MMcf/d), both dated 21 February 1997. Androscoggin has received a letter of confirmation from TransCanada, dated 24 October 1997, providing the requisite FS capacity covering the balance of the gas to be shipped to East Hereford, Québec. From the international border, the gas would be transported on PNGTS to a proposed cogeneration facility in Jay, Maine, pursuant to a FS transportation contract and letter agreement, both dated 18 December 1996, between Androscoggin and PNGTS.

## 4.4 Market

The proposed gas export would be used to supply a new 150 MW cogeneration facility, the Androscoggin Energy Center, to be constructed at the International Paper Androscoggin Mill in Jay, Maine. Electric power from the facility would be sold to the New England Power Pool and wholesale buyers. Electric power and steam would also be sold to the host, International Paper, under a 20-year Energy Services Agreement.

The facility is being constructed as a Qualifying Facility, under the U.S. Public Utility Regulatory Policies Act, to operate at a load factor of approximately 95 percent annually. The facility is scheduled to commence commercial operation in November 1998. Androscoggin indicated that project financing was expected to close in January 1998.

## 4.5 Gas Sales Contracts

Androscoggin executed gas sales contracts with five producers providing a total Maximum Daily Quantity ("MDQ") of 33 600 GJ plus 12,000 MMBtu and an annualized Minimum Annual Quantity ("MAQ") as follows:

| Producer | MDQ (GJ) | Annualized MAQ (%) | Gas Sales Contract Dated |
|---|---|---|---|
| AltaGas | 7 000 | 85 | 22 April 1997 |
| Beau Canada | 4 100 | 85 | 27 January 1997(1) |
| Producers Marketing | 11 000 | 92 | 12 February 1997 |
| Rio Alto | 11 500 | 85 | 24 June 1997 |
| | (MMBtu) | | |
| Renaissance(2) | 12,000 | 75 | 11 March 1997 |

1 As amended
2 Plus fuel gas to Sabrevois, Québec

Each of the five gas sales contracts is for a ten-year term, commencing on the later of 1 November 1998 or the date of first deliveries. In addition, the contracts commit the gas purchased to the cogeneration facility.

Under the gas sales contracts, Androscoggin is obligated to purchase a MAQ which is a minimum percentage of the annualized MDQs, as outlined above. Except for Renaissance, if Androscoggin fails to purchase the MAQ, it is responsible to pay to the producer to whom it defaulted a sum equal to the deficient quantity multiplied by a gas inventory charge. In the case of Renaissance, Androscoggin must reimburse Renaissance for the incremental costs incurred by it for the resale of the gas not taken. Similarly, each producer is obligated to provide the scheduled purchase quantities up to the MDQ. For failure to provide the scheduled quantities, the defaulting producer must pay Androscoggin the incremental cost for purchasing default quantities from other fuel suppliers.

With the exception of the gas sales contract with Renaissance, each contract price is based upon a predetermined fixed annual price beginning 1 November each year throughout the contract term. In the case of Renaissance, the contract price is a netback price based upon the Sabrevois price, as agreed upon between the parties. If a Sabrevois price cannot be agreed upon, the contract price will be the Waddington price index, as reported in the "*Canadian Gas Price Reporter*", until the Sabrevois price is determined by binding arbitration. Under the five gas sales contracts, binding arbitration is provided for the settlement of disputes. Androscoggin indicated that the Renaissance contract will be amended as necessary to reflect the delivery/export point as East Hereford, Québec.

Androscoggin stated that the five gas sales contracts were negotiated at arm's length. Each contract is subject to certain conditions precedent with respect to regulatory authorizations and FS transportation agreements.

Androscoggin indicated that the netback price, on 1 July 1997 at the Alberta border, would have been as follows:

| Producer Contract | $Cdn./GJ | $Cdn./MMBtu |
|---|---|---|
| AltaGas | 1.84 | 1.93 |
| Beau Canada | 1.84 | 1.93 |
| Producers Marketing | 1.84 | 1.93 |
| Renaissance | 2.01 | 2.11 |
| Rio Alto | 1.94 | 2.04 |

## 4.6 Status of Regulatory Authorizations

Androscoggin indicated that its suppliers would apply to the EUB for removal permits, and that it would apply to the DOE/FE for the requisite import authorization.

*Views of the Board*

The operation of the cogeneration facility will rely exclusively on the gas supply under contract with the five Canadian producers. As well, the facility will operate at a high load factor underpinned by minimum annual take obligations for which there are penalties for default quantities. The Board is, therefore, satisfied that there is a reasonable expectation that the volumes sought to be licensed will be taken.

Each of the gas sales agreements, with the exception of the Renaissance agreement, provides for a predetermined fixed annual price over the term of the agreements. The gas sales agreement with Renaissance provides for market-oriented pricing. In addition, the five gas sales agreements provide for binding arbitration. The Board is, thus, satisfied that the gas sales agreements will remain attractive to the parties over the proposed term and are, therefore, durable.

The Board has examined the gas sales agreements between Androscoggin and each of the five producers and is satisfied that they have been negotiated at arm's length.

Given that each of the five producers owns the gas supply supporting this export licence application, a finding of producer support is not necessary.

The Board's examination of Androscoggin's submitted supply indicates that the five producers' reserves exceed the total commitments against those reserves and that these producers have adequate productive capacity to exceed the requirements over the majority of the term of the applied-for licence.

Androscoggin is responsible for the TransCanada charges, and the NOVA charges for four of the five producers. Revenues generated under the gas sales agreements will likely be sufficient to enable Renaissance to cover its demand charges on NOVA. The Board is, therefore, satisfied that there are provisions in the gas sales agreements for the payment of the associated transportation charges on Canadian pipelines over the term of the agreements.

The Board notes that the gas sales and transportation agreements are for a term and volume commensurate with the requested licence. Having considered this, and the adequacy of gas supply underpinning the proposed export, the Board is satisfied that the requested licence term is appropriate.

**Decision**

**The Board has decided to issue a gas export licence to Androscoggin Energy LLC, subject to the approval of the Governor in Council. Appendix I contains the terms and conditions of the licence to be issued.**

## Chapter 5

# PanCanadian Petroleum Limited

## 5.1 Application Summary

In its applications dated 28 August 1997, PanCanadian Petroleum Limited ("PCPL") applied, pursuant to Part VI of the Act, for two licences for the export of natural gas with the following terms and conditions:

Sales to the Western U.S. - Kingsgate Export

| | | | |
|---|---|---|---|
| Term | - | commencing on 1 November 1998 and ending on 31 October 2008 | |
| Point of Export | - | Kingsgate, British Columbia | |
| Maximum Daily Quantity | - | 2 727.4 $10^3m^3$ | (96.2 MMcf) |
| Maximum Annual Quantity | - | 996.2 $10^6m^3$ | (35.2 Bcf) |
| Maximum Term Quantity | - | 9 962.0 $10^6m^3$ | (351.7 Bcf) |
| Tolerances | - | ten percent per day and two percent per year | |

Sales to the U.S. Midwest - Monchy Export

| | | | |
|---|---|---|---|
| Term | - | commencing on 1 November 1998 and ending on 31 October 2008 | |
| Point of Export | - | Monchy, Saskatchewan | |
| Maximum Daily Quantity | - | 4 277.5 $10^3m^3$ | (151.0 MMcf) |
| Maximum Annual Quantity | - | 1 562.4 $10^6m^3$ | (55.2 Bcf) |
| Maximum Term Quantity | - | 15 624.0 $10^6m^3$ | (551.5 Bcf) |
| Tolerances | - | ten percent per day and two percent per year | |

The gas proposed to be exported by PCPL would be produced from its corporate supply pool within the Province of Alberta. The gas would be transported on the NOVA system to:

- Coleman, Alberta at the interconnection with Alberta Natural Gas Company Ltd ("ANG"); and
- McNeill, Alberta at the interconnection with Foothills Pipe Lines Ltd. ("Foothills").

The gas shipped on the ANG system would be transported to the international border at Kingsgate, British Columbia and subsequently shipped on the Pacific Gas Transmission Company ("PGT") system to the Western U.S. markets of PanCanadian Petroleum Company ("PCPC"), an affiliate of PCPL. The gas transported on the Foothills system would be transported to the international border at Monchy, Saskatchewan for subsequent shipment on the Northern Border Pipeline Ltd. ("Northern Border") system to PCPC's markets in the U.S. Midwest.

## 5.2 Gas Supply

### 5.2.1 Supply Sources

PCPL stated that the natural gas to be exported under the Kingsgate and Monchy export proposals would be produced from its corporate supply pool within the Province of Alberta. All of the reserves in the subject supply pool are owned by PCPL.

### 5.2.2 Reserves

The EUB estimate of remaining reserves in PCPL's Alberta corporate supply pool, as of 12 June 1997, is 54 649.0 $10^6m^3$ (1,929.1 Bcf) on an adjusted basis. The submitted reserves exceed the total requirements against those reserves of 52 043.6 $10^6m^3$ (1,837.1 Bcf) over the term of the proposed export, including the applied-for volumes.

### 5.2.3 Productive Capacity

PCPL submitted two comparisons of supply and demand for its corporate supply pool. One comparison assumed that there would be no additions to PCPL's supply pool and no third party purchases, while the other comparison assumed that there would be 100 percent replacement of production. PCPL indicated that over the past five years, it has replaced an average of 140 percent of its production. With no additions to its supply pool, PCPL's productive capacity is adequate to meet its requirements until the year 2001. PCPL stated that, using a realistic case of 100 percent replacement of production, its productive capacity projection would exceed annual requirements throughout the term of the applied-for volumes.

## 5.3 Transportation

PCPL would use a number of its existing FS transportation agreements with NOVA to transport the gas underpinning the Kingsgate and Monchy export proposals to the Alberta border points of Coleman and McNeill. The export volumes underpinning each applied-for licence would then be shipped to the international border and markets as follows:

- For the applied-for volume of 2 727.4 $10^3m^3/d$ (96.2 MMcf/d) for sales to the Western U.S., PCPL has existing FS capacity agreements with ANG, dated 11 July 1991, 30 December 1994, and 21 April 1995, to ship the requisite capacity to Kingsgate, British Columbia. From the international border, PCPC would then ship the gas on the PGT system, pursuant to three FS transportation agreements covering the applied-for volume, to serve PCPC's existing markets in the Western U.S.

- For the applied-for volume of 4 277.4 $10^3m^3/d$ (151.0 MMcf/d) for sales to the U.S. Midwest, PCPL has existing FS capacity agreements with Foothills, dated 1 April 1995 and 4 April 1997, for the requisite capacity to Monchy, Saskatchewan. From the international border, PCPC would then transport the gas on the Northern Border system pursuant to a precedent agreement, dated 11 August 1995, and a number of permanent capacity release agreements.

## 5.4 Markets

PCPL is a major Canadian energy company that explores for, develops, produces and markets crude oil, natural gas and natural gas liquids. PCPL indicated that the applied-for exports will be marketed by PCPC through an affiliate, National Gas & Electric L.P. ("NG&E").

NG&E is a significant marketer and trader of natural gas. NG&E has a growing market portfolio that averaged sales of approximately 31.2 $10^6m^3/d$ (1.1 Bcf/d) in 1996. By the end of 1996, NG&E's sales averaged 10 198.3 $10^3m^3$ (360 MMcf/d) and 8 498.6 $10^3m^3$ (300 MMcf/d) in the Western U.S. and the U.S. Midwest regions, respectively.

In 1996, PCPL exported under short-term order up to 2 747.9 $10^3m^3/d$ (97.0 MMcf/d) and 1 756.4 $10^3m^3/d$ (62.0 MMcf/d) to serve its markets in the Western U.S. and U.S. Midwest, respectively. PCPL indicated that these exports have been at essentially 100 percent load factor and this is expected to continue for the full applied-for volumes at Kingsgate and Monchy.

## 5.5 Gas Sales Contracts

PCPL did not file with the Board an arm's length gas sales agreement underpinning the Kingsgate and Monchy export proposals. Instead, PCPL filed its inter-affiliate gas sales agreements with PCPC, dated 1 January 1994, and the PCPC and NG&E agreement, dated 1 July 1997, as amended.

While the gas sales agreements between PCPL and PCPC, and PCPC and NG&E were not negotiated at arm's length, PCPL stated that all of NG&E's sales would be made at arm's length.

Both of the aforementioned inter-affiliate gas sales agreements contain an obligation to take the Daily Contract Quantity equivalent to the maximum daily quantities underpinning the Kingsgate and Monchy export proposals. Each gas sales agreement contains penalties for gas not delivered or taken.

The inter-affiliate gas sales agreements contain market-oriented index pricing. PCPL indicated that the price for the gas at the Alberta border, as of 1 July 1997, would have been $Cdn. 1.40/GJ ($Cdn. 1.47/MMBtu) and $Cdn. 2.06/GJ ($Cdn. 2.16/MMBtu) under the proposed exports at Kingsgate and Monchy, respectively.

## 5.6 Regulatory Authorizations

PCPL indicated that it will apply for the requisite EUB removal permits. PCPL also indicated that PCPC will apply for the import authorizations from the U.S. DOE/FE in respect of the Kingsgate and Monchy export proposals.

*Views of the Board*

The Board notes that NG&E is an established marketer of natural gas with a significant sales portfolio. In addition, NG&E has been exporting the applied-for export volume at Kingsgate and approximately 1 756.4 $10^3m^3/d$ (62.0 MMcf/d) at Monchy under short-term order at essentially 100 percent load factor. The Board also notes that PCPL expects that the applied-for exports will be made at a 100 percent load factor. The Board is, therefore, satisfied that there is a reasonable expectation that the volumes sought to be licensed will be taken.

NG&E, PCPL's marketing affiliate, is the sole market for PCPL's gas export supply. On the basis of the contractual link to export the applied-for volumes through PCPC and NG&E over the proposed term, the Board is satisfied that the proposed export for resale in NG&E's market portfolio is durable.

The Board has examined the gas purchase agreements between PCPL and PCPC and between PCPC and NG&E and notes that these inter-affiliate agreements cannot be said to have been negotiated at arm's length. The Board notes, however, that the gas sales by NG&E will be made on an arm's length basis. Moreover, the Board notes that the provisions of the agreements between PCPC and NG&E and between PCPL and PCPC are reflective of agreements negotiated at arm's length.

PCPL is responsible for the NOVA, ANG and Foothills charges. Revenue generated from NG&E's sales will likely provide sufficient revenues to cover these transportation charges. The Board is, therefore, satisfied that there are provisions for the payment of the associated transportation charges on Canadian pipelines over the term of the applied-for licences.

Given that PCPL owns the gas supply supporting this export licence application, a finding of producer support is not necessary.

With regard to the gas supply that underpins the proposed export, PCPL's reserves exceed the total commitments against those reserves. In addition, PCPL has adequate productive capacity to meet the requirements over the term of the applied-for licences.

The Board notes that the gas purchase contracts between PCPL and PCPC, and PCPC and NG&E, and the transportation contracts are for a term and volume commensurate with the requested licences. Having considered this, and the adequacy of gas supply underpinning the proposed exports, the Board is satisfied that, in each case, the requested licence term is appropriate.

**Decision**

**The Board has decided to issue two gas export licences to PanCanadian Petroleum Limited, subject to the approval of the Governor in Council. Appendix I contains the terms and conditions of the licences to be issued.**

## Chapter 6

# ProGas Limited

## 6.1 Application Summary

By application dated 28 August 1997, as amended, ProGas sought, pursuant to Part VI of the Act, three licences for the export of natural gas with the following terms and conditions:

Sales to the U.S. Midwest - Emerson Export

| | | |
|---|---|---|
| Term | - | commencing on 1 November 1998 and ending on 31 October 2008 |
| Point of Export | - | Emerson, Manitoba |
| Maximum Daily Quantity | - | 750.4 $10^3$m3 (26.5 MMcf) |
| Maximum Annual Quantity | - | 274.1 $10^6m^3$ (9.7 Bcf) |
| Maximum Term Quantity | - | 2 740.8 $10^6m^3$ (96.8 Bcf) |
| Tolerances | - | ten percent per day and two percent per year |

Sales to the U.S. Midwest - Monchy Export

| | | |
|---|---|---|
| Term | - | commencing on 1 November 1998 and ending on 31 October 2008 |
| Point of Export | - | Monchy, Saskatchewan |
| Maximum Daily Quantity | - | 849.6 $10^3m^3$ (30.0 MMcf) |
| Maximum Annual Quantity | - | 310.3 $10^6m^3$ (11.0 Bcf) |
| Maximum Term Quantity | - | 3 103.2 $10^6m^3$ (109.5 Bcf) |
| Tolerances | - | ten percent per day and two percent per year |

Sales to the U.S. Pacific Northwest and California - Kingsgate Export

| | | |
|---|---|---|
| Term | - | Commencing on 1 July 1998 and ending on 1 March 2007 |
| Point of Export | - | Kingsgate, British Columbia |

| | | | |
|---|---|---|---|
| Maximum Daily Quantity | - | 222.3 $10^3m^3$ | (7.9 MMcf) |
| Maximum Annual Quantity | - | 27.3 $10^6m^3$ | (1.0 Bcf) for the period 1 July 1998 to 31 October 1998 |
| | - | 81.1 $10^6m^3$ | (2.9 Bcf) for each consecutive 12 month period commencing 1 November 1998 |
| | - | 26.7 $10^3m^3$ | (0.9 Bcf) for the period from 1 November 2006 to 1 March 2007 |
| Maximum Term Quantity | - | 703.4 $10^6m^3$ | (24.8 Bcf) |
| Tolerances | - | ten percent per day and two percent per year | |

ProGas would provide the gas for the proposed exports from its contracted corporate supply in Alberta. The gas would be transported on the NOVA system to:

- Empress, Alberta at the interconnection with TransCanada;
- McNeill, Alberta at the interconnection with Foothills; and
- Coleman, Alberta at the interconnection with ANG.

The gas transported on the TransCanada system would then be transported to the international border at Emerson, Manitoba for subsequent shipment on the Great Lakes Gas Transmission Limited Partnership ("GLGT") system to ProGas U.S.A. Inc.'s ("ProGas U.S.A.") markets in the U.S. Midwest. The gas shipped on the Foothills system would be transported to the international border at Monchy, Saskatchewan and subsequently on the Northern Border system to ProGas U.S.A.'s markets in the U.S. Midwest. The gas transported to the ANG system would be transported to the international border at Kingsgate, British Columbia for subsequent shipment on the PGT system to ProGas U.S.A.'s markets in the U.S. Pacific Northwest and California.

## 6.2 Gas Supply

### 6.2.1 Supply Sources

ProGas contracts its gas supply under long-term contracts with 160 producers in 240 areas in the Province of Alberta. ProGas also has gas supply under contract in British Columbia and Saskatchewan; however, ProGas does not intend to use this gas to support its current export proposal. ProGas' current total Daily Contract Quantity ("DCQ") is 39 319.0 $10^3m^3/d$ (1,388.0 MMcf/d). Since 1993, ProGas has modified its gas purchase arrangements by creating a new deliverability contract. Although land and reserves continue to be dedicated, the DCQ is determined by the productive capacity of the wells within the lands under contract. The term of ProGas' deliverability contract is the life of the reserves dedicated under the contract.

### 6.2.2 Reserves

ProGas provided the Board with its EUB estimate of Alberta reserves.

ProGas' submitted estimate of total remaining established reserves under contract in Alberta was 96 283.0 $10^6m^3$ (3,398.8 Bcf) as of year-end 1996. The EUB Reserves Under Control Listing as of year-end 1996 for ProGas' Alberta lands under contract showed an adjusted total remaining established marketable reserves estimate of 80 830.0 $10^6m^3$ (2,853.3 Bcf). This volume is less than the ProGas estimate but is sufficient to meet its total requirements, including the applied-for volumes.

### 6.2.3 Productive Capacity

While ProGas does not intend to use its British Columbia and Saskatchewan reserves in support of the current application, the overall comparison of productive capacity and annual requirements does include supply from these provinces in addition to supply from ProGas' Alberta reserves. ProGas' comparison of annual supply and requirements indicated that ProGas could meet its requirements throughout the term of the applied-for licences. Deliverability was demonstrated to be adequate on both constrained and unconstrained bases.

## 6.3 Transportation

ProGas would use its existing FS transportation agreement with NOVA, dated 20 January 1995, to transport the gas underpinning each of the three applied-for licences to the Alberta border points of Empress, McNeill, and Coleman. The export volumes underpinning each applied-for licence would then be transported to the international border and markets as follows:

- For the applied-for volume of 750.4 $10^3m^3$/d (26.5 MMcf/d) supporting sales to the U.S. Midwest, ProGas has executed a precedent agreement with TransCanada, dated 21 February 1997, for the requisite FS capacity to ship the gas to Emerson, Manitoba for a term of 10 years beginning 1 November 1998. From the international border, ProGas U.S.A. would then transport the gas on the GLGT system to ProGas U.S.A.'s markets in the U.S. Midwest, pursuant to the two precedent agreements it has executed with GLGT, both dated 29 February 1996.

- For the applied-for volume of 849.6 $10^3m^3$/d (30.0 MMcf/d) supporting sales to the U.S. Midwest, ProGas has a FS agreement with Foothills for 424.9 $10^3m^3$/d (15.0 MMcf/d), dated 4 April 1997, and an existing FS agreement, dated 23 October 1987, covering the balance, to transport the gas on the Foothills system to Monchy, Saskatchewan for a period of 10 years beginning 1 November 1998. From the international border, ProGas U.S.A. would transport the gas on the Northern Border system to ProGas U.S.A.'s market in the U.S. Midwest, pursuant to two precedent agreements it has executed with Northern Border, both dated 11 August 1995.

- For the applied-for volume of 222.3 $10^3m^3$/d (7.9 MMcf/d) supporting sales to the U.S. Pacific Northwest and California, ProGas has accepted an assignment of the requisite FS capacity on ANG to transport the gas to Kingsgate, British Columbia for 10 years

beginning 1 March 1997. From the international border, ProGas U.S.A. would ship the gas on the PGT system to ProGas U.S.A.'s markets in the Pacific Northwest and California, pursuant to the precedent agreement it has executed with PGT, dated 20 February 1997.

## 6.4 Markets

ProGas is a major gas supply aggregator in Canada and its wholly-owned U.S. affiliate, ProGas U.S.A., has a large established portfolio of sales to diverse customers in the market areas underpinning the applied-for export licences. ProGas and ProGas U.S.A. sell over 34.0 $10^6m^3/d$ (1.2 Bcf/d) of natural gas in Canada and the U.S. of which over 7 932.0 $10^3m^3/d$ (280.0 MMcf/d) is sold in the U.S. Midwest and 209.6 $10^3m^3/d$ (7.4 MMcf/d) in the U.S Pacific Northwest and California. ProGas U.S.A. has been actively marketing gas in the U.S. Midwest since the early 1980's.

ProGas indicated that it will be able to expand upon its existing short-term sales arrangements in the U.S. Midwest. In addition, ProGas U.S.A. has successfully marketed gas under short-term order at essentially 100 percent load factor to the U.S Pacific Northwest and California region off the PGT system since 1 March 1997. ProGas expects that the applied-for exports serving ProGas U.S.A.'s markets in the U.S. Midwest, the Pacific Northwest and California will continue to be made at 100 percent load factor over the duration of the applied-for licences.

## 6.5 Gas Sales Contracts

ProGas will sell the gas underpinning the three proposed exports to ProGas U.S.A., pursuant to an intercorporate gas purchase contract between ProGas and ProGas U.S.A., dated 1 July 1990, as amended.

ProGas provided evidence that it has received producer support, pursuant to the *Alberta Natural Gas Marketing Act*, for the full term of the applied-for export licences underpinning the Kingsgate and Emerson exports. However, ProGas indicated that, for the Monchy export proposal, it has received producer support only up to 1 November 2000.

The gas purchase contract with each of ProGas' producers provides for a netback pricing structure based upon the price ProGas receives from its customers. ProGas indicated that the producer netback for the proposed sales to each market region, as of July 1997, would have been as follows:

- Sales to the U.S. Midwest through the Emerson, Manitoba export point off the GLGT system would have been $Cdn. 2.09/GJ ($Cdn. 2.19/MMbtu) based upon the monthly index for Michcon as published in "*Gas Daily*".

- Sales to the U.S. Midwest through the Monchy, Saskatchewan export point off the Northern Border system would have been $Cdn. 1.94/GJ ($Cdn. 2.04/MMbtu) based upon the spot price as published in "*Inside FERC*".

- Sales to the U.S. Pacific Northwest and California through the Kingsgate, British Columbia export point off the PGT system would have been $Cdn. 1.38/GJ

($Cdn. 1.45/MMbtu) based upon the Malin (Line 401) index as published in "*Natural Gas Intelligence*".

Under the gas purchase contract with each producer, these prices are reduced by TransCanada, NOVA and all other Canadian transportation charges and ProGas' cost of service. The gas purchase contracts provide for binding arbitration with regard to the redetermination of the gas price.

## 6.6 Status of Regulatory Authorizations

ProGas will be applying to the EUB to amend its removal permit to include the applied-for exports. ProGas U.S.A. has received DOE/FE import authorization Order No. 1326 supporting the Kingsgate export. ProGas U.S.A. has applied to the DOE/FE for the requisite import authorization supporting the Emerson export. ProGas U.S.A. is also in the process of amending its current import authorization Order No. 1330 supporting the Monchy export to cover the period 1 March 2008 to 31 October 2008.

***Views of the Board***

Kingsgate and Emerson Export Proposals

The Board notes that ProGas is a major supply aggregator, and that ProGas U.S.A. has developed a large portfolio of sales in the U.S. Midwest and new markets in the Pacific Northwest and California. ProGas U.S.A. has been marketing gas to the Pacific Northwest and California under short-term order at a load factor of essentially 100 percent. The Board is, therefore, satisfied that there is a reasonable expectation that the volumes sought to be licensed will be taken.

The Board observes that ProGas' upstream gas purchase agreements with each of its producers provide for market-oriented pricing mechanisms which are supported by arbitration provisions. The Board also notes that a finding of producer support was obtained under the *Alberta Natural Gas Marketing Act* for the full term of the applied-for exports for the Kingsgate and Emerson proposals. The Board is, thus, satisfied that ProGas' gas purchase agreements with its producers are likely to remain attractive to the parties over each applied-for term and are, therefore, durable.

The Board recognizes that ProGas is responsible for the NOVA, TransCanada and ANG charges and that the revenues generated from the export sales will likely be sufficient to enable ProGas to cover the demand charges on these systems. The Board is, therefore, satisfied that there are provisions for the payment of the associated transportation charges on Canadian pipelines over the terms of the proposed licences.

The Board's examination of ProGas' contracted corporate supply indicates that its reserves exceed the total commitments against those reserves and that ProGas has adequate productive capacity to meet its requirements over the term of the applied-for licences underpinning the Kingsgate and Emerson proposals.

Both the producer support and transportation agreements underpinning the applied-for licences for export at Kingsgate and Emerson are for a term and volume commensurate

with the requested licences. Having considered this, and the adequacy of gas supply underpinning these proposed exports, the Board is satisfied that, in each case, the requested licence term is appropriate.

The Board also notes that ProGas applied for a commencement date of 1 November 1997 for the proposed licence to serve the U.S. Pacific Northwest and California. Since the Board does not backdate its licences, the applied-for term volume must be adjusted to account for a shorter term. Assuming a commencement date of 1 July 1998, the Board has reduced the applied-for term volume by a commensurate amount. This term volume reduction is the product of the Maximum Daily Quantity and the number of days from 1 November 1997 to 30 June 1998 inclusive. ProGas agreed with the method of calculating this reduction in the applied-for term volume.

Monchy Export Proposal

The Board notes that ProGas has received producer support to make gas export sales at Monchy only until 1 November 2000. The Board concludes, therefore, that the MBP has not been satisfied for exports beyond the first two years of the applied-for licence. Consequently, the Board is prepared to issue a licence covering only the period up to 1 November 2000.

**Decisions**

**The Board has decided to issue a gas export licence to ProGas Limited for each of the Kingsgate and Emerson export proposals, subject to the approval of the Governor in Council. Appendix I contains the terms and conditions of the licences to be issued.**

**The Board has decided to issue a gas export licence to ProGas Limited for the period 1 November 1998 to 1 November 2000 for the Monchy export proposal, subject to approval of the Governor in Council. Appendix I contains the terms and conditions of the licence to be issued.**

Chapter 7

# Vermont Gas Systems, Inc.

## 7.1 Application Summary

By application dated 28 August 1997, Vermont Gas Systems, Inc. ("Vermont Gas") sought, pursuant to Part VI of the Act, a licence for the export of natural gas with the following terms and conditions:

| | | |
|---|---|---|
| Term | - | commencing on 1 November 1998 and ending on 1 November 2008 |
| Point of Export | - | Philipsburg, Québec |
| Maximum Daily Quantity | - | 226.6 $10^3m^3$ (8.0 MMcf) |
| Maximum Annual Quantity | - | 82.7 $10^6m^3$ (2.9 Bcf) |
| Maximum Term Quantity | - | 827.0 $10^6m^3$ (29.2) |
| Tolerances | - | ten percent per day and two percent per year |

The gas proposed to be exported by Vermont Gas would be produced from the Alberta Corporate Reserves Pool of Renaissance. The gas would be transported on the NOVA system to the contract delivery point at the Alberta border near Empress. TransCanada would then deliver the gas to Philipsburg, Québec. From the international border, the gas would be transported by Vermont Gas using its own distribution system, for delivery to its markets in the State of Vermont.

## 7.2 Gas Supply

### 7.2.1 Supply Sources

Vermont Gas stated that the supply intended for export would be provided by Renaissance from its corporate reserves pool in Alberta.

### 7.2.2 Reserves

Vermont Gas provided the Board with the EUB estimate of Renaissance's Alberta corporate reserves in the amount of 15 777.0 $10^6m^3$ (556.9 Bcf) as of 12 June 1997 on an adjusted basis. The submitted reserves exceed the total requirements against those reserves of 12 612.0 $10^6m^3$ (445.2 Bcf), including the applied-for volume.

### 7.2.3 Productive Capacity

Vermont Gas submitted an annual supply and demand balance for Renaissance, which demonstrated that Renaissance has adequate productive capacity to meet its annual requirements, including its commitment to Vermont Gas, over the term of the applied-for licence.

## 7.3 Transportation

Renaissance would use its existing FS transportation on NOVA to transport the gas to Empress. Vermont Gas has acquired transportation on TransCanada through an assignment agreement with Gaz Métropolitain and Company Limited Partnership ("GMLP"), for delivery of the gas to Montreal. In addition, Vermont Gas has entered into a letter of agreement with TransCanada to change the delivery point to Philipsburg, Québec. From the international border, Vermont Gas will use its distribution system to deliver the gas to its customers.

## 7.4 Market

Vermont Gas is a local distribution company located in Burlington, Vermont, and serves its residential, industrial and commercial customers in the northwest portion of the State of Vermont. The company has an annual throughput of 198.3 $10^6 m^3$ (7.0 Bcf), and growth over the past 20 years has been at an annual rate of about four percent. The proposed export volumes will represent over 40 percent of the company's firm, long-term supply portfolio.

## 7.5 Gas Sales Contract

Vermont Gas and Renaissance executed a gas sales contract, dated 1 November 1996, which is to commence on 1 November 1998 and extend for ten years. The contract is subject to certain conditions precedent with regard to obtaining regulatory authorizations and pipeline transportation capacity.

The contract provides for a MDQ of 226.6 $10^3 m^3$ (8.0 MMcf), plus associated fuel on TransCanada. The Minimum Annual Quantity ("MAQ") is 100 percent of the annualized MDQ. Vermont Gas is obligated to purchase the MAQ, and there are financial penalties to be paid to Renaissance for deficient quantities. As well, if Vermont Gas fails to nominate and purchase the MAQ during any contract year, Renaissance has the right to reduce the MDQ accordingly. Similarly, there are financial penalties to be paid by Renaissance for failure to deliver the full MDQ.

The monthly price to be paid to Renaissance is the Alberta Border (Empress) Month Average Spot (One Month) price, expressed in $/GJ, as reported in the table entitled "Canadian Natural Gas Supply Prices" in the first of the month issue of *Canadian Gas Price Reporter*, plus a premium. If the price reference ceases to be published, the parties have agreed to negotiate a replacement. In addition, the premium is subject to redetermination every second contract year. Failure to agree on either a replacement price reference or a redetermination of the premium will be resolved by binding arbitration.

Vermont Gas stated that the contract was negotiated at arm's length.

Vermont Gas indicated that the price at the Alberta border, as of 1 July 1997, would have been \$Cdn. 1.63/GJ (\$Cdn. 1.71/MMBtu).

## 7.6 Status of Regulatory Authorizations

Vermont Gas stated that Renaissance has applied to the EUB for a gas removal permit. In addition, Vermont Gas indicated that it is currently authorized by the DOE/FE to import gas into the U.S. under its gas sales arrangement with a previous supplier. Vermont Gas intended to apply, by 31 December 1997, to either amend its existing order or apply for a replacement, depending on the requirements of the DOE/FE.

***Views of the Board***

The Board notes that Vermont Gas is obligated to purchase gas at a 100 percent load factor and that there are financial penalties for deficient volumes. The Board is, therefore, satisfied that there is a reasonable expectation that the volumes sought to be licensed will be taken.

The Board observes that the gas sales agreement provides for market-oriented pricing, price redetermination and binding arbitration. The Board is, thus, satisfied that the gas sales agreement will remain attractive to the parties over the proposed term and is, therefore, durable.

The Board has examined the gas sales agreement between Renaissance and Vermont Gas and is satisfied that it has been negotiated at arm's length.

Given that Renaissance owns the gas supply supporting this export licence application, a finding of producer support is not necessary.

The Board's examination of the Renaissance corporate supply indicates that its reserves exceed the total commitments against those reserves and that Renaissance has adequate productive capacity to exceed its requirements over the majority of the term of the applied-for licence.

The Board recognizes that Vermont Gas is responsible for the TransCanada charges, and revenues generated under the gas sales agreement will likely be sufficient to enable Renaissance to cover the demand charges on the NOVA system. The Board is, therefore, satisfied that there are provisions in the gas sales agreement for the payment of the associated transportation charges on Canadian pipelines over the term of the agreement.

The Board notes that the gas sales and transportation agreements are for a term and volume commensurate with the requested licence. Having considered this, and the adequacy of gas supply underpinning the proposed export, the Board is satisfied that the requested licence term is appropriate.

**Decision**

**The Board has decided to issue a gas export licence to Vermont Gas Systems, Inc., subject to the approval of the Governor in Council. Appendix I contains the terms and conditions of the licence to be issued.**

Chapter 8

# Wascana Energy Inc. and Rock-Tenn Company, Mill Division, Inc.

## 8.1 Application Summary

By application dated 28 August 1997, Wascana Energy Inc. ("Wascana") and Rock-Tenn Company, Mill Division, Inc. ("Rock-Tenn"), collectively the ("Joint Applicants") sought, pursuant to Part VI of the Act, a licence for the export of natural gas with the following terms and conditions:

| | | | |
|---|---|---|---|
| Term | - | commencing on 1 November 1998 and ending on 31 October 2008; | |
| Point of Export | - | Philipsburg, Québec | |
| Maximum Daily Quantity | - | 61.2 $10^3m^3$ | (2.2 MMcf) |
| Maximum Annual Quantity | - | 22.3 $10^6m^3$ | (0.8 Bcf) |
| Maximum Term Quantity | - | 223.4 $10^6m^3$ | (7.9 Bcf) |
| Tolerances | - | ten percent per day and two percent per year | |

The gas proposed to be exported would be produced from Wascana's corporate supply in the Province of Saskatchewan. The gas would be transported on the TransGas Limited ("TransGas") system to the interconnect with TransCanada at a point near Steelman, Saskatchewan. The gas would then be transported on the TransCanada system to the international border near Philipsburg, Québec. From the international border, the natural gas would subsequently be transported on the Vermont Gas system to Rock-Tenn's plant in Sheldon Springs, Vermont.

## 8.2 Gas Supply

### 8.2.1 Supply Sources

Wascana proposes to supply gas to Rock-Tenn from its Core Corporate Supply Pool in Saskatchewan. No specific pools would be contractually dedicated to Rock-Tenn for the proposed sale.

### 8.2.2 Reserves

Wascana provided estimates of remaining reserves in its corporate supply pool. The majority of the reserves analysis was conducted by a consultant, while the remainder of the analysis was conducted by Wascana.

The remaining reserves in Wascana's submitted supply pool totalled 7 637.0 $10^6m^3$ (269.6 Bcf). The total commitments against those reserves are 2 398.5 $10^6m^3$ (84.7 Bcf), including the proposed export quantity of 246.4 $10^6m^3$ (8.7 Bcf) with fuel.

### 8.2.3 Productive Capacity

Wascana submitted a comparison of productive capacity and annual requirements over the term of the proposed export. The comparison showed that Wascana's supply pool has adequate productive capacity to meet the total commitments against that supply pool over the entire term of the proposed export.

## 8.3 Transportation

Wascana has the requisite FS capacity on TransGas. Rock-Tenn has executed a Precedent Agreement with TransCanada, dated 21 February 1997, for the requisite FS capacity and term to transport the gas from a point near Steelman, Saskatchewan to the export point at Philipsburg, Québec. By letter dated 21 October 1996, Vermont Gas confirmed its ability to deliver Rock-Tenn's gas to its Sheldon Springs, Vermont facility.

## 8.4 Market

Rock-Tenn manufactures and distributes paperboard and converted products primarily to nondurable goods producers. Rock-Tenn owns and operates a mill near Sheldon Springs, Vermont. The gas proposed for export would be sold by Wascana to Rock-Tenn for use at its Sheldon Springs plant.

## 8.5 Gas Sales Contract

Rock-Tenn executed a Firm Sales/Purchase Agreement ("Agreement"), dated 18 December 1996, with Wascana for a term of ten years commencing 1 November 1998. The Agreement is subject to certain conditions precedent with regard to regulatory authorizations and FS transportation.

Wascana is obligated to deliver the Daily Contract Quantity ("DCQ") of 61.2 $10^3m^3$ (2.2 MMcf) at 100 percent load factor, plus fuel gas on TransCanada, with the exception of planned outages or changes in Rock-Tenn's plant operations. If Rock-Tenn fails to nominate or take the DCQ, there are financial penalties to be paid to Wascana. There are similar penalties to be paid to Rock-Tenn if Wascana fails to deliver.

The gas price is based upon the monthly Empress index as published in Canadian Enerdata's "*Canadian Gas Price*" plus a fee, fuel gas on TransGas, TransCanada transportation charges and a transportation management fee. The Agreement also provides the option for parties to agree to use a fixed price for a specific term.

The Joint Applicants indicated that the Agreement was negotiated at arm's length.

Wascana estimated that the price on 1 July 1997 at the Saskatchewan/Manitoba border, would have been at least $Cdn. 1.63/GJ ($Cdn. 1.71/MMBtu).

## 8.6 Status of Regulatory Authorizations

Wascana has acquired the necessary gas removal authorization from the Province of Saskatchewan for the requisite term and volume of the proposed export. The Joint Applicants indicated that Rock-Tenn would be applying shortly for the necessary long-term import authorization from the DOE/FE.

***Views of the Board***

Under the Agreement, Rock-Tenn is obligated to purchase the DCQ at a 100 percent load factor and there are penalties for deficient volumes. The Board is, therefore, satisfied that there is a reasonable expectation that the volumes sought to be licensed will be taken.

The Agreement provides for market-oriented pricing, including the option for parties to revert to a fixed price for a specified period. The Board is, thus, satisfied that the Agreement will remain attractive to the parties over the proposed term and is, therefore, durable.

The Board has examined the Agreement between Wascana and Rock-Tenn and is satisfied that it has been negotiated at arm's length.

Given that Wascana owns or controls the gas supply supporting this export licence application, a finding of producer support is not necessary.

With regard to the gas supply that underpins the proposed export, Wascana's submitted reserves exceed the total commitments against those reserves. In addition, Wascana has adequate productive capacity to meet its commitments against those reserves over the term of the applied-for licence.

Rock-Tenn is responsible for the TransCanada transportation charges. As well, revenues generated under the Agreement will likely be sufficient to enable Wascana to cover the demand charges on the TransGas system. The Board is, therefore, satisfied that there are provisions in the Agreement for the payment of the associated transportation charges on Canadian pipelines over the term of the contract.

The Agreement and transportation agreements are for a term and volume commensurate with the requested licence. Having considered this, and the adequacy of gas supply underpinning the proposed export, the Board is satisfied that the requested licence term is appropriate.

**Decision**

**The Board has decided to issue a gas export licence to Wascana Energy Inc. and Rock-Tenn Company, Mill Division, Inc., subject to the approval of the Governor in Council. Appendix I contains the terms and conditions of the licence to be issued.**

Chapter 9

# Disposition

The foregoing chapters constitute our Reasons for Decision and Decisions in respect of those applications heard by the Board in the GHW-2-97 proceeding.

K.W. Vollman
Presiding Member

A. Côté-Verhaaf
Member

R.J. Harrison
Member

Calgary, Alberta
January 1998

## Appendix I

# Terms and Conditions of the Licences to be Issued

### Terms and conditions of the Licence to be Issued to Androscoggin Energy LLC

1. (a) Subject to condition 1(b), the term of this Licence shall commence on the later of 1 November 1998 or the date of first deliveries, and shall extend for 10 years from the commencement date.

   (b) The term of this Licence shall end on 1 November 2000 unless exports commence hereunder on or before that date.

2. Subject to condition 3, the quantity of gas that may be exported under the authority of this Licence shall not exceed:

   (a) 1 242 200 cubic metres in any one day;

   (b) 453 400 000 cubic metres in any consecutive twelve-month period ending on 31 October; or

   (c) 4 534 000 000 cubic metres during the term of this Licence.

3. (a) As a tolerance, the amount that may be exported in any 24-hour period under the authority of this Licence may exceed the daily limitation imposed in condition 2 by ten percent.

   (b) As a tolerance, the amount that may be exported in any consecutive twelve-month period under the authority of this Licence may exceed the annual limitation imposed in condition 2 by two percent.

4. Gas exported under the authority of this Licence shall be delivered to the point of export near East Hereford, Québec.

### Terms and conditions of the Licence to be Issued to PanCanadian Petroleum Limited (Kingsgate Export)

1. (a) Subject to condition 1(b), the term of this Licence shall commence on 1 November 1998 and shall end on 31 October 2008.

   (b) The term of this Licence shall end on 1 November 2000 unless exports commence hereunder on or before that date.

2. Subject to condition 3, the quantity of gas that may be exported under the authority of this Licence shall not exceed:

(a) 2 727 400 cubic metres in any one day;

(b) 996 200 000 cubic metres in any consecutive twelve-month period ending on 31 October; or

(c) 9 962 000 000 cubic metres during the term of this Licence.

3. (a) As a tolerance, the amount that may be exported in any 24-hour period under the authority of this Licence may exceed the daily limitation imposed in condition 2 by ten percent.

   (b) As a tolerance, the amount that may be exported in any consecutive twelve-month period under the authority of this Licence may exceed the annual limitation imposed in condition 2 by two percent.

4. Gas exported under the authority of this Licence shall be delivered to the point of export near Kingsgate, British Columbia.

**Terms and conditions of the Licence to be Issued to PanCanadian Petroleum Limited (Monchy Export)**

1. (a) Subject to condition 1(b), the term of this Licence shall commence on 1 November 1998 and shall end on 31 October 2008.

   (b) The term of this Licence shall end on 1 November 2000 unless exports commence hereunder on or before that date.

2. Subject to condition 3, the quantity of gas that may be exported under the authority of this Licence shall not exceed:

   (a) 4 277 500 cubic metres in any one day;

   (b) 1 562 400 000 cubic metres in any consecutive twelve-month period ending on 31 October; or

   (c) 15 624 000 000 cubic metres during the term of this Licence.

3. (a) As a tolerance, the amount that may be exported in any 24-hour period under the authority of this Licence may exceed the daily limitation imposed in condition 2 by ten percent.

   (b) As a tolerance, the amount that may be exported in any consecutive twelve-month period under the authority of this Licence may exceed the annual limitation imposed in condition 2 by two percent.

4. Gas exported under the authority of this Licence shall be delivered to the point of export near Monchy, Saskatchewan.

## Terms and conditions of the Licence to be Issued to ProGas Limited (Emerson Export)

1. (a) Subject to condition 1(b), the term of this Licence shall commence on 1 November 1998 and shall end on 31 October 2008.

   (b) The term of this Licence shall end on 1 November 2000 unless exports commence hereunder on or before that date.

2. Subject to condition 3, the quantity of gas that may be exported under the authority of this Licence shall not exceed:

   (a) 750 400 cubic metres in any one day;

   (b) 274 100 000 cubic metres in any consecutive twelve-month period ending on 31 October; or

   (c) 2 740 800 000 cubic metres during the term of this Licence.

3. (a) As a tolerance, the amount that may be exported in any 24-hour period under the authority of this Licence may exceed the daily limitation imposed in condition 2 by ten percent.

   (b) As a tolerance, the amount that may be exported in any consecutive twelve-month period under the authority of this Licence may exceed the annual limitation imposed in condition 2 by two percent.

4. Gas exported under the authority of this Licence shall be delivered to the point of export near Emerson, Manitoba.

## Terms and conditions of the Licence to be Issued to ProGas Limited (Monchy Export)

1. The term of this Licence shall commence on 1 November 1998 and shall end on 1 November 2000.

2. Subject to condition 3, the quantity of gas that may be exported under the authority of this Licence shall not exceed:

   (a) 849 600 cubic metres in any one day;

   (b) 310 300 000 cubic metres in any consecutive twelve-month period ending on 31 October; or

   (c) 620 600 000 cubic metres during the term of this Licence.

3. (a) As a tolerance, the amount that may be exported in any 24-hour period under the authority of this Licence may exceed the daily limitation imposed in condition 2 by ten percent.

(b) As a tolerance, the amount that may be exported in any consecutive twelve-month period under the authority of this Licence may exceed the annual limitation imposed in condition 2 by two percent.

4. Gas exported under the authority of this Licence shall be delivered to the point of export near Monchy, Saskatchewan.

**Terms and conditions of the Licence to be Issued to ProGas Limited (Kingsgate Export)**

1. (a) Subject to condition 1(b), the term of this Licence shall commence on 1 July 1998 and shall end on 1 March 2007.

   (b) The term of this Licence shall end on 1 July 2000 unless exports commence hereunder on or before that date.

2. Subject to condition 3, the quantity of gas that may be exported under the authority of this Licence shall not exceed:

   (a) 222 300 cubic metres in any one day;

   (b) 27 342 900 cubic metres for the period 1 July 1998 to 31 October 1998, and 81 139 500 cubic metres for each consecutive twelve-month period commencing on 1 November 1998 and ending on 31 October 2006, and 26 676 000 cubic metres for the period 1 November 2006 to 1 March 2007; or

   (c) 703 357 200 cubic metres during the term of this Licence.

3. (a) As a tolerance, the amount that may be exported in any 24-hour period under the authority of this Licence may exceed the daily limitation imposed in condition 2 by ten percent.

   (b) As a tolerance, the amount that may be exported in any consecutive twelve-month period under the authority of this Licence may exceed the annual limitation imposed in condition 2 by two percent.

4. Gas exported under the authority of this Licence shall be delivered to the point of export near Kingsgate, British Columbia.

**Terms and conditions of the Licence to be Issued to Vermont Gas Systems, Inc.**

1. (a) Subject to condition 1(b), the term of this Licence shall commence on 1 November 1998 and shall end on 1 November 2008.

   (b) The term of this Licence shall end on 1 November 2000 unless exports commence hereunder on or before that date.

2. Subject to condition 3, the quantity of gas that may be exported under the authority of this Licence shall not exceed:

(a) 226 600 cubic metres in any one day;

(b) 82 700 000 cubic metres in any consecutive twelve-month period ending on 31 October; or

(c) 827 000 000 cubic metres during the term of this Licence.

3. (a) As a tolerance, the amount that may be exported in any 24-hour period under the authority of this Licence may exceed the daily limitation imposed in condition 2 by ten percent.

(b) As a tolerance, the amount that may be exported in any consecutive twelve-month period under the authority of this Licence may exceed the annual limitation imposed in condition 2 by two percent.

4. Gas exported under the authority of this Licence shall be delivered to the point of export near Philipsburg, Québec.

**Terms and conditions of the Licence to be Issued to Wascana Energy Inc. and Rock-Tenn Company, Mill Division, Inc.**

1. (a) Subject to condition 1(b), the term of this Licence shall commence on 1 November 1998 and shall end on 31 October 2008.

(b) The term of this Licence shall end on 1 November 2000 unless exports commence hereunder on or before that date.

2. Subject to condition 3, the quantity of gas that may be exported under the authority of this Licence shall not exceed:

(a) 61 200 cubic metres in any one day;

(b) 22 300 000 cubic metres in any consecutive twelve-month period ending on 31 October; or

(c) 223 400 000 cubic metres during the term of this Licence.

3. (a) As a tolerance, the amount that may be exported in any 24-hour period under the authority of this Licence may exceed the daily limitation imposed in condition 2 by ten percent.

(b) As a tolerance, the amount that may be exported in any consecutive twelve-month period under the authority of this Licence may exceed the annual limitation imposed in condition 2 by two percent.

4. Gas exported under the authority of this Licence shall be delivered to the point of export near Philipsburg, Québec.